

**STATE LANDS COMMISSION
GAS STORAGE LEASE PRC 2839.1**

- AMENDMENT -

This Amendment to Gas Storage Lease PRC 2839.1 ("Lease") is made and entered into on _____ by and between the State of California acting through the State Lands Commission ("State") and Pacific Gas and Electric Company, a California corporation ("Company").

Recitals

The Lease was originally entered into between the State and the Company on January 25, 1962 for a period of fifteen (15) years. The Lease gave the Company a preferential right of renewal for two (2) successive periods of fifteen (15) years each upon such reasonable terms and conditions as may be prescribed by the State. The Lease was renewed and amended on August 19, 1977 for a fifteen (15) year term beginning March 1, 1977 and ending March 1, 1992. The Company seeks to renew the Lease for a second fifteen (15) year period beginning March 1, 1992.

The State and the Company wish to make additional amendments to the Lease to be effective for the second fifteen (15) year term.

Renewal and Amendment

1. Acting pursuant to Paragraph 14 of the Lease and in consideration of the sums provided for and the covenants, conditions and agreements below, the State renews the Lease for a period of fifteen (15) years, beginning at 7:00 a.m. on March 1, 1992 and ending at 7:00 a.m. on March 1, 2007.
2. Paragraph 5 of the Lease shall be deleted and the following substituted in its place:
 5. The Company shall pay to the State the higher of (1) an annual rental, or (2) an incremental gas fee on all gas injected for storage during the lease year (March through February). If the Company fails to pay the appropriate annual rental or incremental gas fee for any lease year, the State may terminate this Lease upon giving ninety (90) days notice to the Company, or may continue the Lease with the right to exercise any legal or equitable remedy that the State might otherwise have.

(a) All annual rentals shall be based on the State's ownership share of the storage reservoir as specified in Paragraph 6 of the Lease. For the period March 1, 1992 to September 1, 1995, the rentals are based on the State's ownership of 12.193% of the storage reservoir as specified in Paragraph 6 of the Lease. Beginning on September 1, 1995 and running through the end of the fifteen (15) year lease term, the annual rentals shall be based on the State's ownership of 9.6% of the storage reservoir as specified in Paragraph 6 of the Lease.

The annual rental for the lease year beginning on March 1, 1992 shall be \$176,708.92, shall be increased each year by five percent (5%) of the previous year's annual rental and shall be subject to adjustment as provided in Paragraph 6 of the Lease. The annual rental shall be due and payable in advance by March 1 of each year.

(b) All incremental gas fees shall be based on the State's ownership share of the storage reservoir as specified in Paragraph 6 of the Lease. For the period March 1, 1992 to September 1, 1995, the incremental gas fees shall be based on the State's ownership of 12.193% of the storage reservoir as specified in Paragraph 6 of the Lease. Beginning on September 1, 1995 and running through the end of the fifteen (15) year term, the incremental gas fees shall be based on the State's ownership of 9.6% of the storage reservoir as specified in Paragraph 6 of the Lease.

The incremental gas fee shall be based on all gas injected for storage. The incremental gas fee for the lease year beginning on March 1, 1992 shall be \$0.04158 per Mcf, shall be increased each year by five percent (5%) of the previous year's annual incremental gas fee and shall be subject to adjustment as provided in Paragraph 6 of the Lease. By March 25 of each year, the Company shall submit to the State a written statement showing for the immediately preceding lease year the total quantity of gas injected for storage and the Company shall pay to the State the difference between the incremental gas fee and the annual rental for the previous lease year if the former exceeds the latter. The State's acceptance of any payment representing the incremental gas fee shall not be deemed a waiver of the State's right to object to the aforementioned statement. The records and accounts of the Company supporting the statement shall be subject to audit by the State at all reasonable times.

All late rental and incremental gas fee payments are subject to interest and penalty charges as specified in Title 14, California Code of Regulations, section 1911.

3. Paragraph 6 of the Lease shall be deleted and the following substituted in its place:

6. The State's ownership share of the storage reservoir has been determined to be 12.193% for the period March 1, 1992 to September 1, 1995. The State and the Company have determined that beginning September 1, 1995 the State's ownership

share of the storage reservoir shall be 9.6%. The State's ownership share of the storage reservoir has been determined according to the best judgment of the State and the Company based upon currently available geological data. Should it be determined by the State and the Company based on subsequently acquired geological data that the area of the storage reservoir or the State's ownership share of the storage reservoir is greater or smaller than herein specified, then an appropriate adjustment shall be made in the State's ownership interest and Exhibit "A" attached hereto shall be modified accordingly. Any such adjustment shall be effective at 7:00 a.m. of the first day of the calendar month in which the adjustment is determined and agreed to by the State and the Company.

4. Paragraph 14 of the Lease shall be deleted and the following substituted in its place:

14. The Lease shall be effective on January 25, 1962 and shall continue in effect until 7:00 a.m. on March 1, 2007. The Company shall have the right to renew the Lease for one (1) additional period of fifteen (15) years at the expiration of the present period upon such reasonable terms and conditions as may be prescribed by the State, unless applicable law in effect at the time of the expiration of the Lease prevents such renewal. If the Lease is terminated pursuant to the provisions of Paragraph 5, 12 or 13 of the Lease, the Company shall have the right for a period of five (5) years after any such termination to withdraw from the storage reservoir all gas injected by the Company and all native gas for which the Company has paid the State its share pursuant to Paragraph 1 of the Lease. If the Company exercises this right, it shall continue to be responsible for payment to the State of the higher of the annual rental or incremental gas fee through the end of the lease year in which the Lease is terminated.

This Amendment shall be effective retroactively to March 1, 1992. All other terms and conditions of the Lease shall remain unchanged and in full force and effect.

Pacific Gas and Electric Company

State Lands Commission

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

Date: _____

Date: _____

All signatures must be acknowledged.